

MINUTES

**California Pollution Control Financing Authority
915 Capitol Mall, Room 587
Sacramento, California
December 17, 2013**

1. CALL TO ORDER & ROLL CALL

Michael Paparian, Chairperson, called the California Pollution Control Financing Authority (CPCFA or Authority) meeting to order at 10:30 a.m.

Members Present: Michael Paparian for Bill Lockyer, State Treasurer
Alan Gordon for John Chiang, State Controller
Eraina Ortega for Michael Cohen, Director of Finance

Staff Present: Reneé Webster-Hawkins, Executive Director

Quorum: The Chairperson declared a quorum

2. MINUTES

Mr. Paparian asked if there were any questions or comments concerning the November 19, 2013 meeting minutes. There were none.

Mr. Gordon moved approval of the minutes; upon a second, the minutes were unanimously approved.

3. EXECUTIVE DIRECTOR'S REPORT

Ms. Webster-Hawkins greeted the Chairman and members of the Board. She summarized the agenda for the meeting, including a new Interagency Agreement with the Air Resources Board (ARB) to continue and improve the successful On-Road Truck Loan Program, and two packages of emergency rulemaking to increase the accessibility of the Bond Program and California Collateral Support Program (CalCAP).

Ms. Webster-Hawkins reported on the selection of CPCFA as the recipient of the Far West Bond Deal of the Year by The Bond Buyer for the issuance of a total of \$765 million in private activity and government bonds for the Poseidon Desalination Plant in Carlsbad. Mr. Paparian and Deputy Executive Director Sherri Kay Wahl represented the Authority at the awards ceremony in New York City earlier this month, and received high praise for their leadership and staff's diligence in completing that complex financing.

Ms. Webster-Hawkins reported that the Authority was the recipient of a \$740,000 settlement

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stemming from a legal action against Ford Motor Company to bring it into compliance with ARB's light-duty on-board diagnostic system requirements. The funds will supplement the \$10 million allocated by SB 359 for the continuance of the On-Road Truck Loan Program.

Ms. Webster-Hawkins stated that under her delegated authority, there were two contracts she signed this month. On November 18, 2013, she executed a contract amendment for Trustee Services supporting the CalCAP programs. Amendment #1 to contract number 05-12 formalized the fact that U.S. Bank became the legal successor in interest to Deutsche Bank National Trust, which previously served as the CalCAP trustee. On December 10, 2013, she signed three contract amendments to keep bond counsel on retainer. Amendment #1 to contract numbers 04-11A, 04-11B, and 04-11C with Alexis Chiu, Leslie Lava, and Orrick Herrington and Sutcliffe, respectfully, each for \$135,000 will ensure that CPCFA will have subject matter experts on retainer through February 2015.

4. BUSINESS ITEMS

A. REQUEST TO APPROVE REINSTATEMENT AND AMENDMENT OF INITIAL RESOLUTION REFLECTING OFFICIAL INTENT TO ISSUE REVENUE BONDS

Mill Valley Refuse Service, Inc.

Presented by: Mario Wong, Staff Services Analyst

Staff introduced Tony Cone, Westhoff, Cone & Holmstedt.

Staff requested a reinstatement and amendment to Initial Resolution No. 04-06 to decrease the par amount to an amount not to exceed \$4,665,000 to reflect a narrower scope of the project. Staff recommended approval of the reinstatement and amendment to Initial Resolution No. 04-06 for Mill Valley Refuse Service, Inc. and/or its Affiliates for an amount not to exceed \$4,665,000.

Mr. Paparian asked what the project would include.

Mr. Cone responded that the project would entail, largely, trucks: newer, modern, cleaner, less fuel-burning vehicles.

Mr. Paparian asked if there were any questions or comments from the Board or public. There were none.

Mr. Gordon moved approval of the item; there was a second.

The item was unanimously approved.

B. REQUEST TO APPROVE EXTENSION OF FINAL RESOLUTION AUTHORIZING THE ISSUANCE OF REVENUE BONDS

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Presented by: Mario Wong, Staff Services Analyst

Staff introduced Jerry Uhland, CalAg, LLC and Robert Feyer, Orrick, Herrington & Sutcliffe LLC.

Staff requested an extension to June 30, 2014 of Final Resolution No. 511 for an amount not to exceed \$175,300,000 to utilize waste rice straw to manufacture medium density fiberboard (MDF). Staff recommended approval of the extension to June 30, 2014 for Final Resolution No. 511 for CalAg, LLC and/or its Affiliates for an amount not to exceed \$175,300,000.

Mr. Papanian asked for a brief update on where the project stands.

Mr. Uhland stated that he had anticipated being in front of the Board in December, talking about a closing rather than an extension of the Final Resolution. He continued, explaining the process undertaken throughout 2013 with: the German government; Oiler Hermes, as the entity responsible for administering the export credit agency loan program; Pricewaterhouse Coopers (PWC) doing due diligence for the public; PWC Entity; Landesbank Baden-Württemberg (LBBW), the bank that is the lead arranger for the taxable debt on this transaction; four due diligence third party experts, providing insight for PWC and LBBW; and some world class legal firms in Germany, New York, and California with 41 lawyers in total documenting the transaction. Mr. Uhland reported that on January 6, 2014, the legal due diligence and other documents will be provided to PWC so that they may complete their report for Oiler Hermes and the project may be heard in Berlin at the Interministerial Finance Committee Meeting, which is held once a month, in March.

Mr. Gordon asked if the project was an economically beneficial way to utilize the rice straw that was previously being burnt. Mr. Uhland responded that it was. Mr. Gordon expressed his support of the project, stating that he had taken part in the legislation to prohibit the burning of the rice straw due to air pollution. He explained that there was always the promise that a more economically beneficial use for the rice straw would be found. He asked Mr. Uhland to explain the types of products the fiberboard would be going into.

Mr. Uhland explained that rice straw MDF is identical to wood based MDF, used as an interior non-structural product. He stated that the output from the plant has been presold for 20 years to companies such as Columbia Forest Products who will use the thin MDF in the core of decorative hardwood plywood often found in board rooms, on wall paneling, and as the material for desks among other uses. He explained that approximately 20% of the MDF has also been sold to Home Depot so that the do-it-yourself person may have the option to buy straw-based MDF versus wood-based MDF. He stated that Pergo and Masco Corporation will launch a laminate flooring line that will be tree-free and formaldehyde-free; as well, those companies will be looking into a tree-free, formaldehyde-free speaker cabinet line. Many of the molders in the Sacramento region will use it as a crown and baseboard material.

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Mr. Gordon thanked Mr. Uhland for his explanation and restated his excitement for the project.

Mr. Feyer mentioned that the project will be coming back to the Board for final approval before the Bonds are issued, and explained that following the final approval, Board members will be able to see the entire financing package.

Mr. Gordon moved approval of the item; there was a second.

Mr. Paparian asked if there were any questions or comments from the Board or public. There were none.

The item was unanimously approved.

C. REQUEST TO APPROVE INTERAGENCY AGREEMENT WITH CALIFORNIA AIR RESOURCES BOARD (ARB) REGARDING CALIFORNIA CAPITAL ACCESS PROGRAM'S (CALCAP) INDEPENDENT CONTRIBUTOR PROGRAM

Presented by: Ian Davis, Staff Services Analyst

Staff introduced Eric White, Air Resources Board.

ARB wishes to continue the Heavy-Duty Vehicle Air Quality Loan Program as an Independent Contributor in CalCAP. The proposed Interagency Agreement allocates up to \$10,000,000 of ARB funds appropriated in Senate Bill 359. These funds would be used to continue the Heavy-Duty Vehicle Air Quality Loan Program, which provides financial assistance to small business owners of heavy-duty vehicles affected by the ARB Truck and Bus Emissions Regulations. The term of this Agreement would be from January 1, 2014 through December 31, 2015.

The scope of the program would remain the same, with only a few changes. ARB has reduced the maximum fleet size, requiring a business to have 10 or fewer on-road heavy-duty vehicles and certify to the number in the fleet. ARB had also set the maximum interest rate a lender may charge on a single loan at 20 percent annual percentage yield. For lenders newly enrolled in the program and existing lenders that have not yet reached \$5 million in total loan volume under the program, ARB had agreed to pay an amount equal to 20% of a borrower's enrolled loan. The contribution would be reduced to 10% once a lender's total loan volume through the program reaches \$5,000,000.

Staff recommended approval to enter into a new Interagency Agreement with ARB.

Mr. White strongly urged the Board's approval of this Interagency Agreement. He explained that since 2009, ARB has partnered with CPCFA on the important program in support of their Truck and Bus Regulation and since that time, ARB has issued over 3,600 loans to operators to get cleaner equipment and compliance with that rule. He

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explained that the changes in the Interagency Agreement reflect the commitment of ARB to ensure that funding is available to small business and small fleets moving forward. He also expressed appreciation to the Legislature for the addition of \$10,000,000 to the program through Senate Bill 359 (SB 359) and stated that this Interagency Agreement also reflects the Legislature's intent that the program continue to focus on small businesses and many of the minority industries that are looking to come into compliance with that regulation.

Ms. Ortega moved approval of the item; there was a second.

Mr. Paparian asked if this Interagency Agreement covers the \$10,000,000 from the Legislative Appropriation and asked if the Board should be expecting an amendment to cover things like the Ford settlement money that was mentioned previously.

Ms. Webster-Hawkins confirmed, explaining that this item is a new Interagency Agreement stemming from the legislation SB 359. She stated that there will be continuity in the two programs, so that lenders who have established loan loss reserve funds under the prior Interagency Agreement will continue to use those funds. Likewise, once CPCFA squares up the accounting under the old Interagency Agreement, any funding leftover in that agreement would flow over into this agreement. At that time, CPCFA will return to the Board to extend the maximum amount of the agreement to account for those extra funds.

Mr. Paparian asked if there were any questions or comments from the Board or public. There were none.

The item was unanimously approved.

D. CONSIDERATION AND APPROVAL OF AMENDMENTS TO REGULATIONS FOR THE CALCAP

Presented by: Melissa Winchester, Staff Services Analyst

Staff requested approval of amendments to the CalCAP Regulations to modify the definition of a Qualified Loan, thus expanding lending assistance and increased injections of private capital into important economic sectors of California. Additionally, CalCAP staff proposed changing the Pre-Qualification requirement in an effort to simplify the program.

Staff recommended adoption of a resolution to amend regulations for the CalCAP Program and authorizing staff to undertake emergency and permanent rulemaking proceedings and other actions related to CalCAP regulation revisions.

Mr. Paparian asked if the qualified loans would include wineries and breweries.

Ms. Webster-Hawkins confirmed, but only for the funding sources that permit it. She

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stated that the loan programs that are funded from the revenues from tax-exempt bond issuances, from the fees collected, do not permit wineries and breweries. It is a feature of Federal Tax Law, so CalCAP will continue to carry the prohibition for any loans that are funded from the revenues of bond issuances. CPCFA's SSBCI Federal Funds, as well as other state funds, do not contain that prohibition, so staff will extend the loans to wineries and breweries from those funding sources.

Mr. Paparian asked if there were any questions or comments from the Board. There were none.

Mr. Gordon moved approval of the item; there was a second.

Mr. Paparian asked if there were any questions or comments from the public. There were none.

The item was unanimously approved.

E. CONSIDERATION AND APPROVAL OF AMENDMENT TO REGULATIONS PERTAINING TO REFUNDING FEES FOR THE BOND PROGRAM

Presented by: Andrea Gonzalez, Staff Services Analyst

Staff requested Board approval to begin the emergency rulemaking process and file regulations to modify the manner in which the refunding fee is assessed on certain bond issuances to reduce the costs of refinancing. Staff proposed to file emergency regulations to amend and adopt subdivision (d) to § 8034 of the CPCFA regulations to waive certain general fees in certain refinancing structures. Upon the Board's approval, staff will file the regulations with the Office of Administrative Law (OAL).

CPCFA would still charge the standard application fee and general fee on the new money portion of these transactions, which is structured to reasonably compensate the Authority for its expenses associated with the sale and post-issuance compliance of bonds. The CPCFA administrative account is currently sustainable and the proposed amendment is not anticipated to have a negative effect on CPCFA administering its programs in the foreseeable future. Moreover, the proposed regulations would simply give the Authority the discretion to reduce the refunding fee for these refunding transactions coupled with new money financing, thereby permitting the Authority to apply the standard formula for the refunding fee in the event it was warranted.

Staff recommended approval of the proposed resolution to amend regulations concerning CPCFA general fees and to authorize staff to undertake emergency and regular rulemaking proceedings and other actions related to CPCFA's bond program refunding fees.

Mr. Paparian asked if there were any questions or comments from the Board. There were none.

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Mr. Gordon moved approval of the item; there was a second.

Mr. Paparian asked if there were any questions or comments from the public. There were none.

The item was unanimously approved.

5. PUBLIC COMMENT

Mr. Paparian asked if there were any comments from the public. There were none.

6. ADJOURNMENT

There being no further business, public comments, or concerns, the meeting adjourned at 10:49 a.m.

Respectfully submitted,

Reneé Webster-Hawkins
Executive Director